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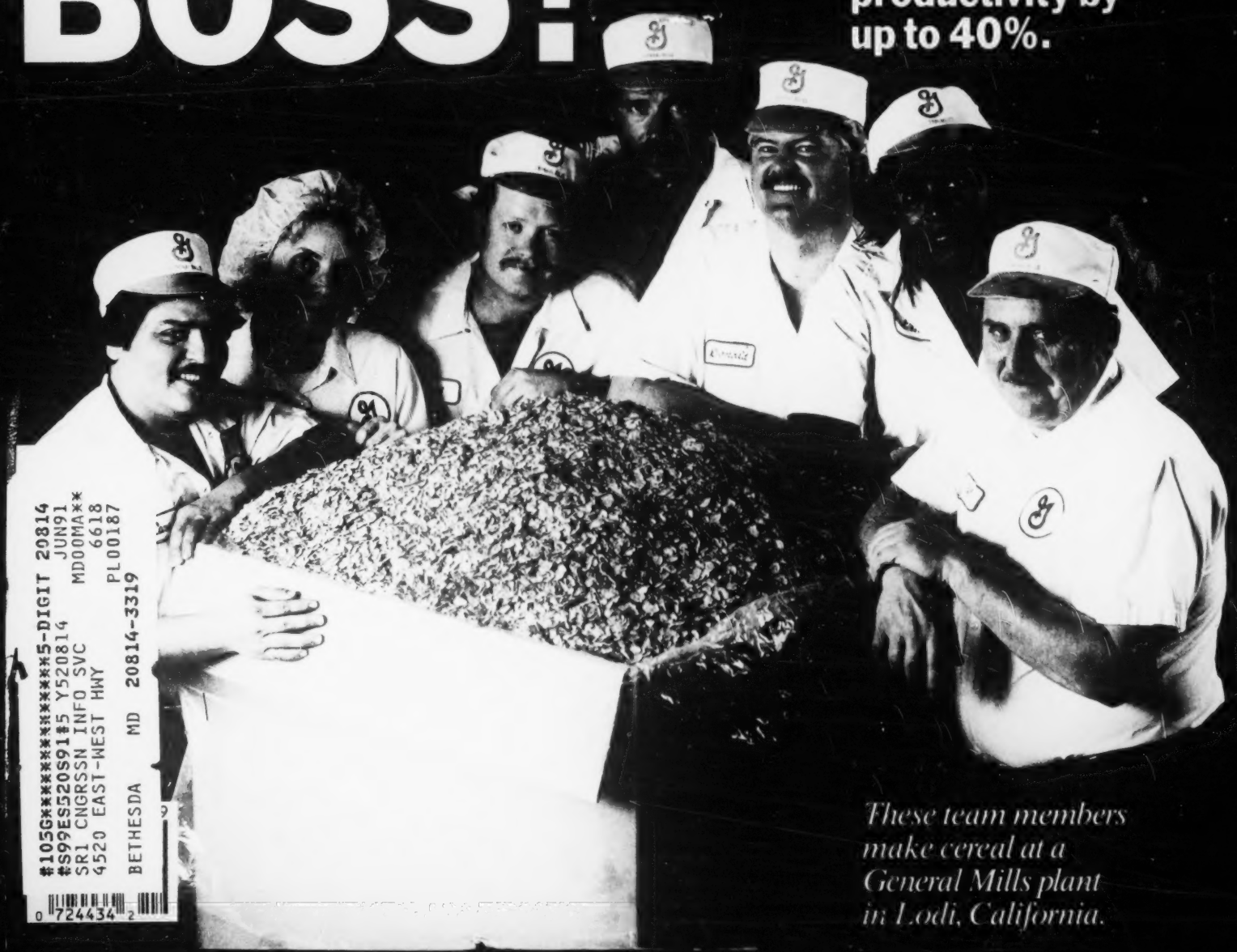
■ TOKYO STOCKS NOW • A BABY-BOOMER WINDFALL • FIDELITY'S FUTURE ■

MAY 7, 1990 $3.95

FORTUNE

WHO NEEDS A BOSS?

Not workers on self-managed teams like this one. They're boosting productivity by up to 40%.



These team members make cereal at a General Mills plant in Lodi, California.

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FORTUNE

"You have to ask, 'How complex is the work?' The more complex, the more suited it is for teams."

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ABOVE: Teamwork at Johnsonville Foods of Sheboygan, Wisconsin, photographed by Steve Woit.

COVER: Workers like these largely do without a boss at the General Mills plant in California, photographed by Doug Menuez—Reportage.

MANAGING/Cover Story

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Not employees in self-managed teams. They arrange schedules, buy equipment, fuss over quality—and dramatically boost the productivity of their companies. These superteams work as well in service and financial businesses as they do in manufacturing. The innovation has taken hold at such corporations as Procter & Gamble, General Mills, Digital Equipment, Federal Express, and 3M—and the phenomenon is spreading. It may be *the* productivity breakthrough of the 1990s. *by Brian Dumaine*

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"People like me, who see themselves as products of the Sixties, give to causes geared to political change."

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"I created a monster."

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"Now even women are wearing jeans in Japan. I never would have predicted that."

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"With our forestry resources, if we had modern technology we could flood the world with cheap paper."

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EDITOR'S DESK

WHEN they got their varied assignments some months ago, David Kirkpatrick, Michele McNally, and Brent Schlender went about them in their usual way—that is, with an extraordinary amount of passion, determination, and commitment. You should have such people working for you! Well, as a matter of fact, you do. Kirkpatrick, McNally, and Schlender are members of FORTUNE's editorial staff, and all of us work for you, our customer. I thought you would be pleased to hear that for their efforts on those assignments, Kirkpatrick, McNally, and Schlender—among other FORTUNE staffers—have been honored by juries of their peers.

JOHN ABBOTT (2)

Writer David Kirkpatrick

Picture editor Michele McNally

DAVID TOERGE

Writer Brent Schlender

The Computer Press Association has just given Schlender its first-place award for feature writing in a general-interest publication for his cover story in our October 9 issue, "How Steve Jobs Linked Up With IBM." Remarkably, Schlender, our man in Silicon Valley, was also a runner-up—for his story in our September 25 issue on "How to Break the Software Logjam."

Kirkpatrick's cover story on "Will You Be Able to Retire?" (July 31) not only brought requests for more than 225,000 reprints but also has been chosen as a finalist for the National Magazine Award for personal service. Kirkpatrick—who at 37 is both a genuine baby-boomer and far from retirement—got the idea for the story when he deduced that people of his generation will have to build up quite staggering sums if they are to live comfortably in old age.

McNally, our picture editor, has reason to flash a smile: Two of the photographers whom she and her assistant Elizabeth Krist chose and directed have won awards for their photos in FORTUNE. Photographer Dilip Mehta's evocative portrait of an exhausted manager at Citibank, in our cover story on "The Workaholic Generation" (April 10, 1989), won first prize for magazine portraits in the Pictures of the Year Competition sponsored by the University of Missouri School of Journalism and the National Press Photographers Association. And Gerd Ludwig's picture of a group of fathers learning about infant care, which ran in "Steps to Help the Urban Black Man" (December 18), took a third prize in the World Press Photo Competition.

All these honors reflect our goal to keep improving in meeting your needs. Which brings up yet another award. The Society of Consumer Affairs Professionals in Business, whose 2,500 members represent companies from Allstate and American Express to United Telecom and Volvo, has picked FORTUNE as winner of its annual Mobius Award. FORTUNE was cited for "its long history of featuring articles that highlight the positive aspects of good consumer affairs/customer service and underscoring the steps successful companies have taken to serve their customers."

Marshall Loeb

MANAGING EDITOR

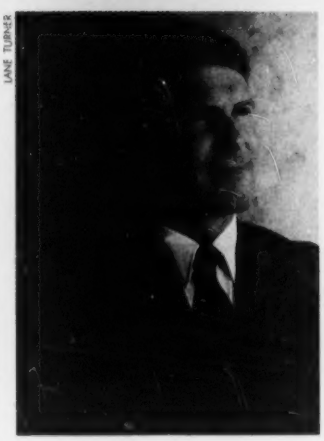
A GREAT TIME TO RENT

■ "It's tough to find anybody in the apartment market who isn't walking around with a long face." So says Robert Sheehan, an economist at the National Apartment Association, a lobbying group, of an industry that made 4.6% on its investment last year, compared with 7.6% in 1988. U.S. apartment owners—see table for the 12 biggest—are staggering after a binge of overbuilding in the 1980s, which has left rental income in the dumps. **Southmark** and **Cardinal Industries** have sought Chapter 11 protection from creditors. Balcor, an **American Express** subsidiary with big exposure in the weak Southwest market, has borrowed heavily from its parent to stay afloat. The few remaining strong regional markets, such as the Pacific Northwest and Las Vegas, threaten to dry up as developers elbow their way in with excessive construction.

To Jonathan Kempner, president of the National Multi Housing Council, an industry association, the troubled market means this is a good time for investors: "There are a lot of good buys out there."

Pension funds at **Shell Oil**, **Ameritech**, and California's public employees' **CalPers**, among others, agree. They have started to invest in apartment complexes while prices are low. **– C.D.**

STEVE LISS



LANE TURNER

Spence (top) and Gerrity

Do apartment owners' woes mean now is a good time to invest?

AMERICA'S BIGGEST LANDLORDS

COMPANY	HEADQUARTERS	NUMBER OF RENTAL UNITS
1. Nat'l Housing Partnership	Washington, D.C.	81,418
2. CRI	Rockville, Md.	73,600
3. Related	New York City	70,146
4. Lincoln Property	Dallas	63,206
5. Lefrak Organization	Rego Park, N.Y.	61,127
6. Balcor	Skokie, Ill.	60,000
6. Southmark	Dallas	60,000
8. Cardinal Industries	Columbus, Ohio	55,000
9. Winthrop Financial	Boston	50,392
10. Hall Financial Group	Dallas	49,236
11. Pru-Bache Securities	New York City	48,000
12. Trammell Crow Resident'l	Atlanta	47,202

SOURCE: NATIONAL MULTI HOUSING COUNCIL

NEW B-SCHOOL DEANS

■ The nation's top business schools have been churning out consultants like crazy, and now the chickens are coming home to roost at one such institution. Wharton has picked as its new dean Thomas Gerrity, 48, president of CSC Consulting, a subsidiary of **Computer Sciences**, a software firm. Gerrity, who succeeds Russell Palmer, July 1, taught at MIT's Sloan School for four years. Says Wharton professor Edward Bowman, who led the search: "A big issue was whether to pick a business executive or an academic. He has both characteristics."

Stanford has gone a more traditional route. Economics professor A. Michael Spence, 46, currently dean of Harvard's Faculty of Arts and Sciences, succeeds Robert K. Jaedicke in September. Spence wants to build a bridge between Stanford's business and engineering schools to help teach students to manage manufacturing. **– R.J.**

THE PIROSHKI HAS LANDED

■ While **McDonald's** gets into stride selling Big Macs in Moscow, another U.S.-Soviet joint venture is bringing Russian-style fast food—specifically, stuffed dumplings, or piroshki—to Norfolk, Virginia. **Chesapeake International**, a small trading company there, has imported two industrial-size dumpling-making machines from a Kiev manufacturer and opened a waterfront store aptly named Piroshki. It's sandwiched between a coffee shop and a seafood café. Soviet natives cook the food (see photo).

Virginians seem to like the fare, which also includes latkes, or potato pancakes. Said a customer of the latkes: "Loved your flapjacks!" Since the machines can produce 800 dumplings an hour each—Piroshki sells about 600 a day—Chesapeake partner Sam Werbel is trying to line up extra sales at local supermarkets. Given today's interest in the Soviets, says he: "We think the timing is right." **– M.A.**

RAYMOND GEHMAN—PICTURE GROUP

Soviets make dumplings over here.

NOW HEAR THIS

■ **DOUG GUSTAFSON,** 52, in Poland on behalf of the World Bank's International Finance Corp., on the country's rush to capitalism:
"It's messy. But that's what freedom's about, and we may as well get on with it."

■ **DALE McDANIEL,** 50, a Federal Aviation Administration administrator, on the increasing public protest over aircraft noise in and around airports:
"It's sort of like smoking. People's tolerance keeps going down."

■ **MARVIN LEATH,** 58, U.S. Congressman (D-Texas) and a member of the Armed Services Committee, on the reaction of military contractors to reduced Pentagon spending:
"The best way you can describe it is, they're in stunned panic."

Two floor traders on the Tokyo Stock Exchange (in center of photos) struggle to get past each other to execute orders during a frenzied week in which the Nikkei

WHAT'S AHEAD NOW

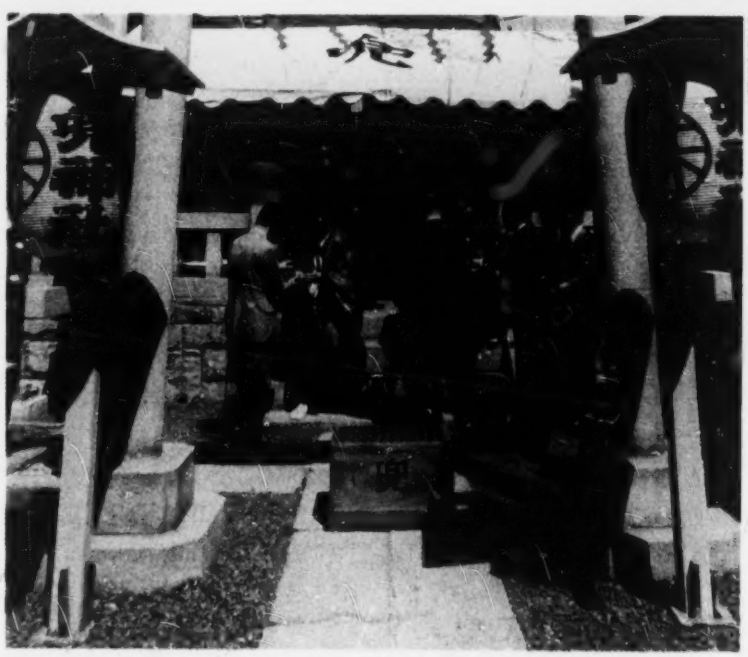
The 28% price slide was more than an overdue correction of breathtaking financial excess. The fundamentals of the Japanese economy have changed—maybe for good. ■ *by Carla Rapoport*

THE RECENT LOSSES on the Tokyo Stock Exchange seem every bit as staggering as did the gains. With $1 trillion wiped off its value—the equivalent of $9,000 for every man, woman, and child in Japan—the market won't shake off this trauma anytime soon. Even those who see greater heights down the road acknowledge that the ascent from here will be much, much tougher. The momentum is gone. Says Keikichi Honda, chief economist at the Bank of Tokyo: "The bubble has burst."

Rarely have markets run so high for so long and in the end provided such a breathtaking display of financial excess. During much of the run-up, superhigh price/earnings ratios were at least explainable by understated corporate earnings and other unique aspects of Japan's financial system. By early January, though, P/Es soared beyond all understanding. Many looked more like bowling scores than any meaningful measure of value. Transportation stocks traded at an average P/E of 216, fishery and forestry stocks at 236, and shipping companies at 160.

Still, to view the market's sharp break as simply an overdue correction would be to miss the real message. Financial markets don't move in a vacuum; they reflect important changes in underlying economic fundamentals. Some are obvious, like higher interest rates and a weakening yen against the dollar. Notes Ryoichi Hirose, manager of Dai-Ichi Mutual Life's $39 billion stock portfolio: "Japan's situation of being blessed with the three lows—low interest rates, a low dollar, and low oil prices—is now changed."

Other reasons are more subtle and probably more significant. Since 1987, Japan's economy has been riding a giant bulge in the nation's money supply. During the past three years money growth has averaged more than 10% annually. The reason, say Japanese officials, was to relieve the economic strain from the strong yen, which crimped the volume of exports. They also wanted to stimulate domestic demand in response to pressures from the U.S. and the European Community to reduce Japan's surging trade surplus.



SANEI SHIMBUN

Praying for a rally: Stock exchange officials visit Shinto priests at a shrine in Tokyo.

The unintended side effect was an ebullient market in everything from stocks to real estate—what economists call asset-price inflation. Before long, however, inflation threatened to move from assets into the general economy. The first worrisome signs appeared in 1989 when wage growth outstripped productivity growth. Inflation, as measured by the wholesale price index, crept up to a 2.5% annual rate, still

PHOTOGRAPHS BY TAKESHI YUZAWA

stock average fell 2,244 points. For 12 years of steadily rising prices, traders haven't had to cope with the pressures of a bear market.

FOR TOKYO STOCKS

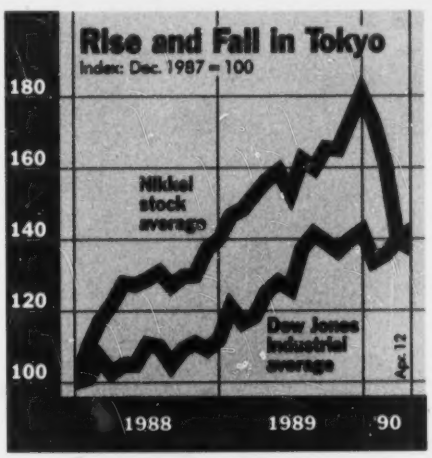
low by Western standards but enough to put downward pressure on the yen. Though currency traders were backing away, stock market investors failed to see that their wonderful world was about to come undone. Most remained mesmerized by the market's steady, unrelenting rise.

To counter the inflation threat, the Bank of Japan began to bump up the official discount rate. During 1989 it raised the rate three times. But as many see it, the steps by Bank of Japan governor Yasushi Mieno were too little, too late. The yen has continued falling, generating new concern about yet another strain of inflation from higher-priced imports. By the time of the third discount rate rise in December, stock market investors finally caught on that the party was over.

MAKE NO MISTAKE: The engine powering Japan's industrial machine is hardly sputtering. Indeed, the recent 20% fall of the yen has been a bonanza for Japan's big exporters. Nissan says it makes an extra $38 million in profits for every 1 yen the currency drops against the dollar. But the yen's weakness and the subsequent stock market slide strongly suggest that the happy-go-lucky days for Japan's economy may be at an end. The new era, analysts worry, may be one where inflation and higher interest rates become the new, unruly bedfellows of strong economic growth. That's not a disaster, but it is a sufficiently good reason to start bailing out of an expensive stock market.

Though the Tokyo market has seemed resilient for so long, it didn't take much selling pressure to get a bear market going. Most Japanese investors are momentum buyers, so they only buy stocks that are going up. If a stock comes under even slight selling pressure, they back away. The drop so far in 1990 has been largely confined to two relatively small groups, foreign investors and so-called *tokkin* funds, which are managed investment accounts for spare corporate cash.

If some of the bigger investors decide to switch to bonds, the market could hit another downdraft. The higher yield offered on bonds is already taking a toll. Nearly $48 billion flowed into Japan's equity investment trusts over the past two years. But this year, Yukio Hosoi, president of Daiwa Investment Trust, predicts almost no growth for the equity fund business. Nobumitsu Kagami, managing director of Nomura Investment Trust, thinks institutional investors will stay out too: "I don't think many portfolio managers will be making significant bets on the stock market with interest rates at 7.3%. There's no incentive."



FAR MORE TROUBLING than mere lack of demand for stocks is the potential for heavy selling in the year ahead, something Japan's stock market hasn't had to contend with for more than a decade. Through much of last year, individuals made generous use of margin debt to buy stocks. Under Japan's laws, margin debt can be extended for only six months, at which time the investor must either come up with enough cash to buy the shares or liquidate his position. With so many stocks selling below their level of six months ago, analysts worry that many investors will liquidate when margin loans expire. Akira Suzuki, chief investment strategist at Morgan Stanley in Tokyo, estimates that between May and August some $37 billion of margin debt will come due.

Japan's life insurance companies, the biggest single investor-group in the stock market, could also start heading for the exits. Though most insist they are still committed to stocks, that bullish sentiment won't amount to much if clients begin to think otherwise. In the mid-1980s many investors were attracted by high returns to five-year annuity policies, which the insurance companies invested partly in the stock market.

With stock returns down, annuity investors may be inclined to shift to government bonds, where yields are nearly triple the level of three years ago. Brian Waterhouse, a financial institutions analyst with James Capel, estimates that Japanese life

REPORTER ASSOCIATE *Susan Moffat*

Born to save, Japanese consumers are learning to spend. The market slide won't slow them down.

insurers could face redemptions of $6 billion per year: "It's a potentially serious problem for the market."

DESPITE THE BAD news for stocks, investors remain surprisingly calm. Says Ikuo Enomoto, managing director of Yasuda Trust and Banking Co., one of Japan's leading pension and fund managers: "Walk down the street and look at people's faces. They're not worried. They're talking about baseball and the cherry blossoms." Unlike many Americans, who suffered from acute anxiety after the 1987 stock market crash, Japanese remain confident that their economy is strong enough to weather any financial storm.

They have reason to be upbeat: Japan's GNP staged a 4.6% advance last year, compared with 3% in the U.S. Despite sagging exports, the growth was achieved on the strength of strong consumer spending and surging corporate investment in plant and equipment. Economists expect this trend to continue. Capital spending should expand 8% to 9% this year because Japanese companies have sufficient cash reserves to cover their investment plans. According to government statistics, only 13% of Japanese capital spending came from loans or equity financing last year, so even if the stock market remains unfriendly, business should be able to buy what it wants.

Nor should the stock market's troubles slow down consumer spending. Real disposable income will likely grow by about 6% this fiscal year, mainly because of wage increases. Only 14% of Japanese personal financial assets were invested in the stock market at the end of last year, while the savings rate remained at around 15%. As a result, most analysts predict at least a 4% increase in personal consumption this year.

Though economic growth should not suffer materially because of the market, analysts do worry that the higher interest rates that helped bring down stock prices could also hurt a number of weak-kneed corporations. Akio Mikuni, who heads a corporate credit rating service in Tokyo, predicts "many bankruptcies" if interest rates rise anymore. He says the ranks of the unhealthy have risen dramatically in recent years. Mikuni's bond rating service, for example, classifies a surprising 30% of Japanese bonds as speculative-grade credits—in other words, junk.

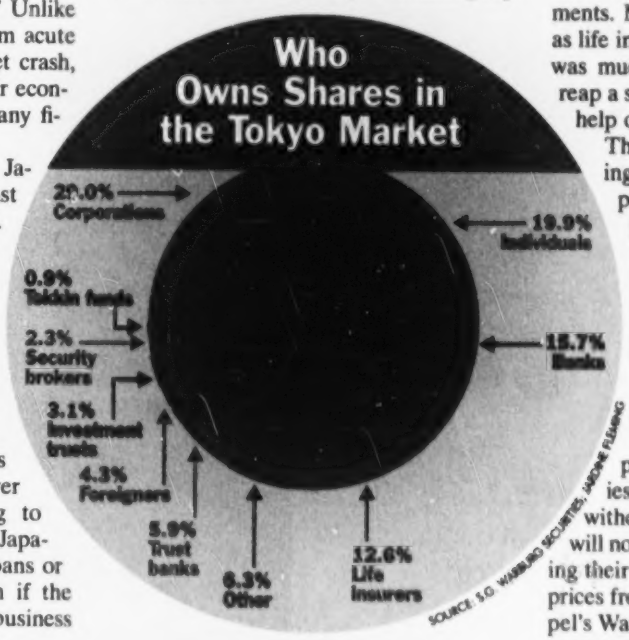
"Look at people's faces. They're not worried. They're talking about baseball and cherry blossoms."

Higher interest rates could also imperil some banks, according to Mikuni. Cash-rich companies have been borrowing less and less from banks in recent years, forcing Japanese banks to lend to less creditworthy customers. And because the finance ministers of the major industrial nations have been unable to come up with a plan to support the yen, the Bank of Japan might well raise the discount rate again.

So far the U.S. has been largely unaffected by Japan's financial problems, but that may not last much longer. Americans have learned to love Japanese cash as an easy way around the U.S. budget deficit. Estimates vary, but most agree that Japanese investors have accounted for 30% to 35% of U.S. government bond auctions over the past few years. Already there are signs that Japan's monetary squeeze will also damp down the flow of funds into U.S. bonds. Analysts at Salomon Brothers in Tokyo estimate that net purchases of U.S. bonds will fall by half in the fiscal year that ends in March 1991.

Some outright selling of U.S. bonds could begin if big Japanese investors decide to start taking some profits on their investments. Most of Japan's big investors, such as life insurers, bought bonds when the yen was much stronger. By selling they could reap a substantial currency gain that would help offset stock market losses.

There are some positive effects. Falling stock prices will ease inflationary pressures in Japan. Perhaps more important, lower prices may also prompt Japanese companies to change their attitude toward stockholders. Traditionally, the Japanese have treated shareholders like unwanted guests, dribbling out miserable dividends with the sure knowledge that capital gains would keep investors happy. Many of Japan's biggest companies have gone a decade or more without raising dividends. Corporations will now have to think hard about improving their payouts if they want to keep share prices from sliding much further. James Capel's Waterhouse says, "For the first time in recent memory, the shareholder will no longer be a third-class citizen in Japan." In more ways than one, the plunge in Tokyo's stock prices could make Japan a more hospitable place to invest. F



In the ride down so far, foreigners and tokkin funds have been the heavy sellers. The Tokyo stock market could take another hit if individuals and insurance companies start dumping shares.

THE WINDFALL AWAITING THE NEW INHERITORS

Parents of baby-boomers are piling up trillions of dollars. Soon, in a historic transfer, the kids will be getting the estates. Be nice: They might spend it on you. ■ *by Alan Farnham*

THE MEEK SHALL INHERIT the earth, but not before baby-boomers—a notoriously more self-assertive bunch—get first crack. The oldest of them are now 44, putting elder parents well into their 70s. While many such parents can look forward to leading active, vital lives stretching into the next century, all will pass eventually.

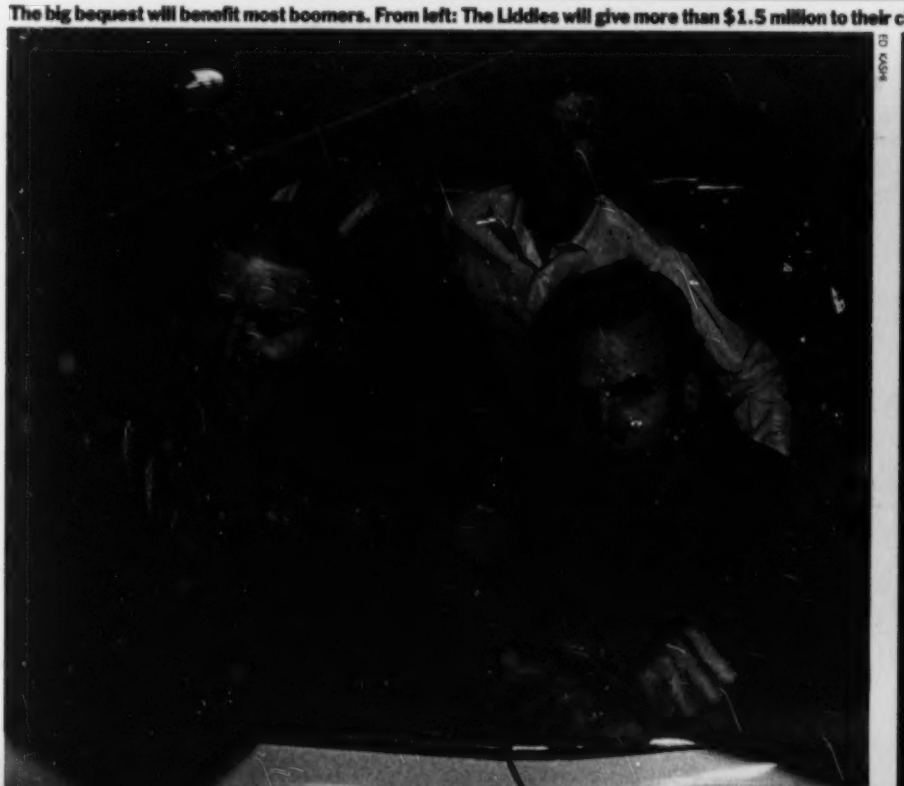
The result will be a social watershed: the biggest intergenerational transfer of wealth in U.S. history. People 60 and older have accumulated a collective net worth of as much as $6.8 trillion, according to economist Robert Avery of Cornell University. As it cascades into the waiting laps of the kids, the American middle class will, for the first time, inherit significant assets en masse.

Taxes and medical expenses will claim some of the legacy, and today's long-lived seniors may decide to spend more in their sunset years than the elderly have in the past. But barring repeal of the first law of thermodynamics, the money has to go somewhere—if not to heirs, then to doctors and health care workers, airlines, the Treasury. As the chart on page 74 shows, the redistribution of wealth at flood tide (2002-06), could amount to as much as 6.5% per year of GNP. On balance, the great handout is likely to shift money from savings (the parents') to consumption (the kids'). Says Frederick Elkind, director of Ogilvy & Mather's TrendSights division: "Depending on what shape the economy is in when inheritance hits, the infusion of money could get us out of a recession or turbocharge consumer spending to unprecedented levels."

Roughly half of the total will go to the boomer generation, and the assets are already flowing. "People are inheriting more and more money every year," says Alexander Bove Jr., 51, a Boston tax lawyer. "My father, a machinist in a shipyard, left a $150,000 estate. In my kids' generation, because of what's happened in terms of parents' real estate appreciation, profit sharing, pensions, and life insurance, we're going to see millionaires created just by the parents' dying off. It's nothing now to have half a million dollars' worth of life insurance. If my wife and I dropped dead, my son and daughter will get $1 million *each*."

The prospect of money-laden heirs (call them enhanced boomers) has ad executives in a lather of anticipation. "We've definitely been thinking about them," says Elkind. Pe-

The big bequest will benefit most boomers. From left: The Liddles will give more than $1.5 million to their children, including sons John (foreground) and George.



I LOVE DADDY'S MONEY

ter Kim, a senior vice president at J. Walter Thompson USA, says he expects patrimonies in the $150,000 to $500,000 range to be common. A luminous sliver of inheritors could fare still better. This Golden Cohort, made up of consumers now in their mid- to late 40s, faces a patrimony of $2 trillion.

Will inheritance bring greater inequities to American society? Some economists think so. Richard Michel of the Urban Institute believes that real estate will fall in value relative to financial assets during the 1990s. Thus lower-middle-class people, whose homes are their most important assets, will lose ground against wealthier families, who have more stocks, bonds, and cash.

But the trends that created today's broad middle class also spread the wealth widely. Children whose families have been accustomed to handing down nothing more substantial than a watch, a bible, and a blessing will come into significant sums. The parents began saving and accumulating in a sunny postwar climate. That sweetness lingers on, put up like jelly in the bank accounts, homes, pensions, insurance policies, and other assets amassed by even low-level managers or senior clerks at big American companies.

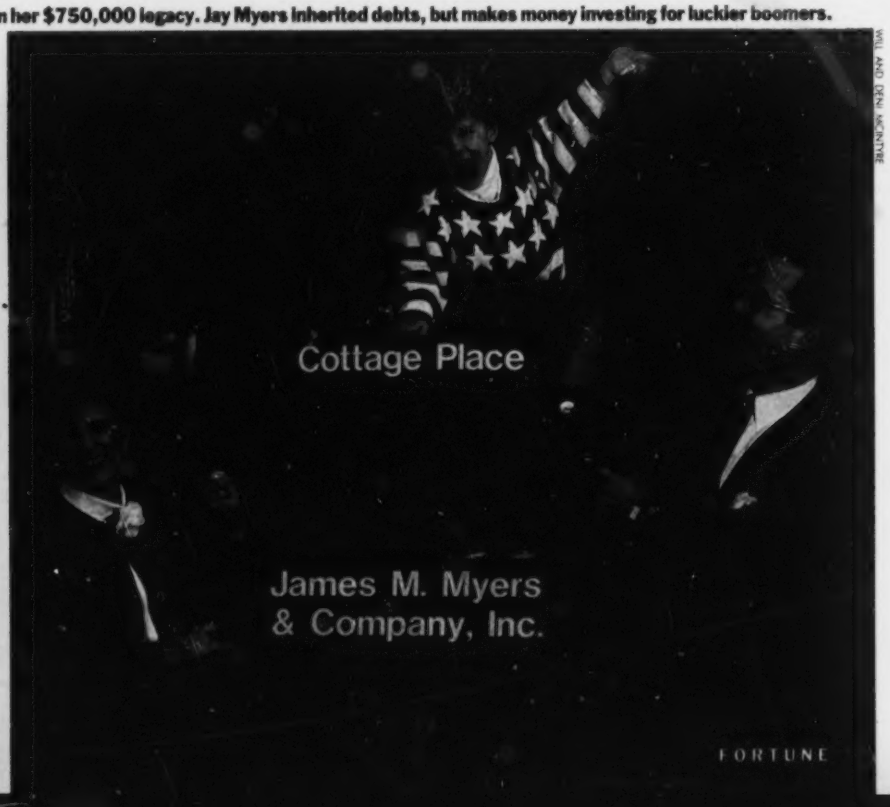
"IT'S REAL ESTATE that made them rich," says Shona Magnetti, 35, half-owner of Deer Harbor Contractors in San Francisco. She's partly right. Homes account for about a third of the average household's assets, roughly the same proportion as financial assets. And about 60% of homeowners over 62 own their houses debt-free. Properties that Magnetti inherited in 1976 have appreciated more than 114%. From 1970 to 1988, the median price of an existing U.S. single-family home rose from $23,000 to $89,300—faster by more than a third than median household income. (Today's median home price stands at over $92,500.)

Many of the new inheritors do not yet comprehend what awaits them. Steven Enright, a New Jersey financial adviser, counsels parents to prepare what he calls a "survival kit." This document, which includes a balance sheet, explains to children the location and value of parental assets should the parents die. Most children, says Enright, are very surprised by what they see. Throw in a $350,000 home, a couple of hundred thousand dollars' worth of life insurance, $150,000 in a pension plan, savings, stocks and bonds, and a few odds and ends and in no time you're got an unexceptional $800,000 estate. Surprise is relative: Children who suspect their family may be worth a million are shocked—but not saddened—to find out it is $4 million.

If parents are in good health, Enright recommends they wait until children have reached their early 30s to tell them the fi-

Shona and Phillip Magnetti started a business with help from her $750,000 legacy. Jay Myers inherited debts, but makes money investing for luckier boomers.

GEORGE STEINMETZ



WILL AND DEN MCINTYRE

nancial facts of life. Telling them earlier may be safe, so long as they are mature, stable, and earning their own money. Disclosure is imperative if the parents are handing down a family business (see following story). Enright admits, however, that some families are better off telling children nothing. In every case, parents must weigh the risk of arousing a child's greed against the benefit of having him prepared—emotionally and financially—to handle an estate.

In some families, the very mention of inheritance is taboo. Observes Jerry Gerber, co-author of *Lifetrends*, an analysis of aging boomers' sensibilities: "There aren't many kids who feel comfortable saying, 'Let's talk about your death and dying, Dad.' " Mary Ann Liebert, a Manhattan publisher of medical journals, agrees: "It's an invasion of privacy to ask your parents how much they've got. It seems awful to think about. Here's your parent, who's in good health, and you say, 'Gee, we should go to this lawyer and protect your assets, and how much do you have, and let's transfer this money to my name.' All of this *maneuvering*."

People who are not all that much younger than their parents are especially loath to be thought of as having sweaty palms. Says John Liddle, 35, of Menlo Park, California: "My parents had me when they were young, so in my mind, they aren't old yet. My granny's still going strong at 84, planning trips to Europe. My thinking about their deaths would be like something out of Balzac."

YET MANY PALMS are moist. Pour a boomer a drink, and he may confess to vulturish daydreaming. Says a 41-year-old who asks not to be identified: "When my wife and I think how we're going to pay for our kids' college, I think . . . maybe Gramps will kick soon. I feel like Prince Edward waiting for Queen Victoria to die."

There is reason to suspect many more boomers toy with the idea of inheritance than let on. "We're beginning to see why so many boomers live a leveraged lifestyle," says J. Walter Thompson's Kim. "They expect to inherit." That same attitude, says Magnetti, may account for her generation's reluctance to say how it plans to pay for retirement: "On some level they expect the money will come."

A brave minority freely admit they think about inheritance *a lot*. And for good reason: To boomers confronting life's biggest financial hurdles (buying a home, putting kids through school, financing their own retirement) parents seem awash in money. Louis Mandell, professor of finance at the University of Connecticut, provides a personal example: "Take my parents. They have so much money from their pensions, from Social Security. And what do they do with it? I go down to Florida to visit them, and I can't even take a shower because they keep the hot water turned off until somebody needs it. This is saving them . . . what?—a dollar a month? Then they complain to me they don't know what to do with their money, it's piling up. An extra three, four thousand dollars a month they can't spend."

Boomers also see the generation just ahead of theirs—the so-called Silent Generation born in the 1930s and early 1940s—getting its full patrimony now. Jay Myers, 36, owner of a stock brokerage in Charlotte, North Carolina, has a ringside seat: "All of a sudden, the guy at the phone company who makes $20,000 a year joins the country club and buys a Volvo. How else do you suppose he's doing it?" They also buy stock, luckily for Myers. His own father died uninsured in 1968, leaving debts behind. Inheritance won't put *every* boomer on easy street.

Even the biggest bundles of parental loot can disappear like so many pinballs. How much money actually will make it into boomers' pockets? There's many a slip 'twixt the crypt and the hip.

IRS data show that gross estates of $600,000 to $1 million typically are preshrunk 11% by the combined action of just three forces: debt and mortgage payments, funeral and administrative costs, and charitable bequests. New uncertainties, however, threaten to shave estates much closer.

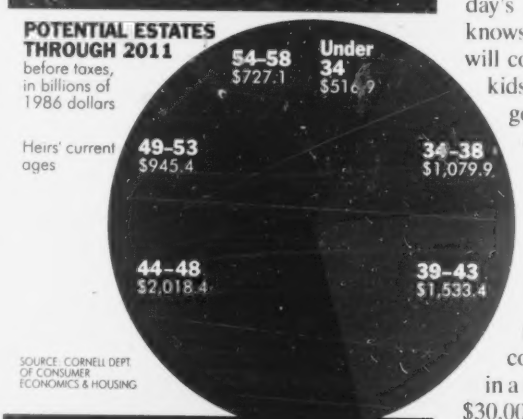
No one knows for certain how long today's elderly will live—meaning no one knows how much of their own money they will consume. Having spent plenty on their kids, they feel less obligated than earlier generations to save every remaining dime for the children's benefit, and more inclined to gild their own golden years. The folks who sport bumper stickers and sweat shirts saying WE'RE SPENDING OUR KIDS' INHERITANCE aren't always joking.

Health care may shrink net worths rapidly, especially for seniors who become incapacitated. The cost of staying in a nursing home now averages $25,000 to $30,000 a year. Drugs and medicines can add thousands more. More than 10% of elderly Americans need such long-term care today, and the proportion is likely to rise.

New financial products make it easier for parents to draw down their resources. Prudential Insurance Co. in February introduced a "Living Needs Benefit Plan" aimed primarily at nursing home patients and the terminally ill. Under it, policyholders, while still alive, can pay themselves full death benefits. Result: Money that previously would have gone to heirs is consumed by the insured.

Boomers who think that the government will pick up most or all nursing home costs—some 25% of those recently surveyed by the American Association of Retired Persons—are in for a shock. Medicaid starts paying only after a patient with limited income has spent himself down to basement level. (He can typically retain his home and such assets as an automobile, a prepaid

Who Will Share the $6.8 Trillion Pie . . .



and Its Economic Impact

YEARS	TOTAL ESTATES in billions of 1986 dollars	TOTAL ESTATES as a percent of GNP
1987–1991	$778.9	4.3%
1992–1996	$1,098.8	5.3%
1997–2001	$1,464.8	6.3%
2002–2006	$1,707.0	6.5%
2007–2011	$1,771.6	6.1%

SOURCES: CORNELL DEPT. OF CONSUMER ECONOMICS & HOUSING; WEFA GROUP

The slices show the maximum amount parents of each age group are expected to leave behind when they die. The kids won't get it all: Some will go to taxes and medical care. But every dollar will boost economic activity as it turns over.

burial contract, and $2,000 in cash.)

At the moment, families' anxiety over qualifying for government assistance appears to be encouraging wealth transfers. If a parent shifts assets to his children (or into an irrevocable trust), more than 30 months before he needs a nursing home, he can qualify as indigent. U.S. taxpayers then pick up the part of his stay not covered by his income. (The IRS deducts these parent-child transfers from the $600,000 that the parent can leave tax-free to his children at death.) This does not necessarily mean checking dad into a hellhole. By law, facilities that accept both privately supported and Medicaid-supported patients cannot discriminate against the latter. Both must receive the same quality of care, though usually only patients paying full freight get private rooms.

Financial planners and attorneys who specialize in the protection of the elderly's assets report that such transfers—on the increase for years—now are common. Alexander Bove, who covers transfers in his book, *The Medicaid Planning Handbook*, says that in his practice three out of four are initiated not by parents but by children. Robert Freedman, a New York City attorney and transfer specialist, says his practice has grown from two to five lawyers in two years. He thinks transfers may be accelerating inheritance by as much as five years.

CHILDREN whose parents enter communal living situations such as retirement villages may be in for surprises. Inevitably, a parent forms new friendships. Romances are begun. The result, explains sociologist Jeffrey Rosenfeld, is that residents can wind up making substantial bequests to other residents. When the will is read, heirs may discover: *My son and daughter, whom I have made comfortable already, will understand I have a friend who needs the money more than they.*

"Imagine waiting for Aunt Sadie to expire," exclaims Rosenfeld, "only to find out her estate now has to be shared with Aunt Sadie's bridge partners!" While state law in such circumstances usually supports a surviving spouse's claim on a third to a half of the estate, few if any states offer children such protection. They must sue to recover, arguing that the parent either was mentally incompetent or subject to undue influence. Both are tough to prove.

Better Aunt Sadie's partners than some bizarre kooks. Political and religious groups have targeted nursing homes as their new happy hunting ground. "They're going where

TIMOTHY GREENFIELD-SANDERS

The giveaway gang, clockwise from top: Winslow, Pillsbury, Hoffman, Collins, and Crocker

PICKING THEIR OWN POINTS OF LIGHT

When the baby-boomers share their good fortune with charities, who will be on the receiving end? Mainstream outfits shouldn't bank on their largess. Young donors are showing themselves to be as persnickety in funding good works as they have been choosing cabernets and ice cream.

When doughboy George Pillsbury, 40, inherited $1,000,000 from his family's namesake baking business 20 years ago, the United Way got zero. Pillsbury used his fortune to co-found Haymarket People's Fund, a Boston charity that supports groups the big charities eschew. Among them: Northeast Vermonters for Gay and Lesbian Rights and the Cambridge–El Salvador Sister City Project. Haymarket and 14 other boomer-backed new-wave philanthropies have since banded together into the Funding Exchange—a national network that last year gave away $5.5 million, most of it in closely targeted grants of $2,000 each.

Says Haymarket donor Barbara Winslow, 44, heir to approximately $1.5 million from the Supp-Hose panty hose fortune: "People like me, who see themselves as products of the Sixties, give to causes geared to political change." Annie Hoffman, 35, gives away about $10,000 a year between Haymarket and the Funding Exchange. "My grandmother gave to her hospital and the zoo," she says. "But my generation was politicized through Vietnam, the women's movement, and gay rights." Her money came from family investments in Kodak and other companies. Chuck Collins, 30, a great-grandson of Oscar Mayer, inherited $300,000 eight years ago and has given *all* of it away, mostly to Haymarket and the Funding Exchange. Earlier this year the exchange recognized his generosity by conferring on him a new award—the Robin Hood.

The boomers' consciences also affect their investment decisions. David Crocker's $500,000 inheritance partly came down, along with his vocation, from Paine Webber co-founder William Paine. An investment adviser with Bernard Herold & Co. in New York City, he counsels clients to pass up investments in companies that sell or manufacture military hardware ("killing machines"). Says Crocker, 41: "When my great-grandfather raised capital to build new businesses, he was providing jobs and services. I feel I'm doing the same thing, but taking social values into account."

the money is," explains Cynthia Kisser, executive director of the Cult Awareness Network of Chicago. Another monitoring group, International Cult Education Program, says it is getting ever-increasing calls from kids worried their parents have begun to show an unwholesome interest in channeling the spirit world. The generation that grew up with vacuum tubes may go out with crystals.

AFTER HEALTH CARE and nursing home costs, the most important variable affecting inheritance will be real estate. Pessimistic forecasts abound, such as the one by Harvard economist Gregory Mankiw for the National Bureau of Economic Research, which argues that real housing prices could fall by as much as 47% between now and 2007. Boomers moved by such fears are already responding. Says Paul Hewitt, 37, a retirement analyst at the Hudson Institute: "I've been telling my mom, quite frankly, to get out of her house. Sell it now."

Don't rush to put mom out. Most economists are more sanguine, expecting real estate prices to stay generally ahead of inflation. Kenneth Rosen, head of the Center for Real Estate and Urban Economics at the University of California at Berkeley, notes that certain markets now depressed—including Boston and the New York metropolitan area—will stay down for a time. But he argues housing overall will remain a good investment.

No matter what happens to housing prices, real estate may sweeten the pot less than boomers expect. Reason: Reverse mortgages, which let home owners trade equity for a lump sum or for a monthly cash payment, decrease the likelihood boomers will inherit all of home sweet home.

Another unknown: inheritance taxes. Under current law, the Feds will not staunch the flow of assets to middle-class inheritors. Both parents combined can give $1.2 million to their children, tax-free. Present rates are so generous to middle-class inheritors that even financially sophisticated boomers have trouble believing them. (On a $1 million estate, for example, federal taxes average $119,800; state taxes $33,200.) Inheritance taxes for the middle class in other industrialized nations generally are higher.

That could change. The Congressional Budget Office, in its February report to Congress, estimates that halving the $600,000 exemption would generate $1 billion a year in new revenues. Another possibility: taxation of capital gains at death. Says Dick Kinyon, senior estate planning partner at the Morrison & Foerster law firm in San Francisco: "It would probably raise more revenue."

Litigation is the last hurdle to consider. Says sociologist Rosenfeld, who often testifies as an expert witness in will wrangles: "People believe contesting wills is a sport of the very wealthy. It isn't. There is litigation over very small estates. You'd be amazed how much involves sentimental items."

Considering the long gantlet inheritors must run to get what's coming to them, it isn't too early for them to begin taking precautionary measures. Jerry Gerber, co-author of *Lifetrends*, advises boomers to buy long-term health insurance for their parents. Example: For around $1,250 a year, a child could buy long-term health insurance for his parent aged 65. One such policy, by John Hancock, pays a $120 daily benefit for three years—enough to cover the costs of an average nursing home stay.

As boomers mature, one important scruple will survive intact from the Eighties: They will refuse to buy anything less than worldclass products.

"And if I were a boomer," Gerber continues, "I'd try to put the hit on my parents now—before chronic illness sets in or some other child in the family needs help." He raises a telling point: The baby boom is called the baby boom because of all those kids. Says Cheryl Russell, editor in chief of *American Demographics*: "Parents aren't so affluent that when you divide by three or four it doesn't make a difference." The boomers' share of the great inheritance pot, split among some 64 million people, works out to around $55,000 per person.

When inheritance finally comes, how will boomers react? Sometime between now and 2011, in a scene from an Agatha Christie novel writ large, millions of heirs will have assembled to hear the reading of their parents' will. Alexander Bove, who has been listening to heirs' gasps for 17 years, leans back in his chair and says, "I see it all. I see greed. I see surprise. I see total confusion. And I see people buying what they never could before."

Puzzling out those prospective purchases is a growing preoccupation for marketers. What boomers do with their patrimonies will depend on the stage of life they will have reached. If today's young have one major misconception, it is that parental money will come when it's most needed. The majority will not inherit until they reach their 50s and 60s. "At that point in your life," asks Lou Mandell, "do you really want a bigger house? It may just be one more hassle. A Ferrari? That's a pretty uncomfortable car. Your reflexes may not be up to driving 160 miles an hour." This thought already has occurred to the marketing people at BMW. "I don't see somebody 50 years old rushing out to buy a car," says BMW's Carl Flesher, vice president of marketing. "He'd buy something like a TV instead."

For adults who are already comfortable, inherited money will be among the most disposable of income. Those without kids (20% of all boomers, according to current projections) will feel especially free to spend it on a cruise or wardrobe. Such boomers' reactions to getting their windfalls will have been voiced for them, years ago, by Sandy Bowers, a miner who struck it rich on Nevada's Comstock Lode. Said he: "Now I have money to throw at the birds."

Some men and women will pay off bills—those who have scrimped to put their kids through college, who haven't yet funded their own retirement, and who, at age 55, may still be using Visa to cover American Express. Says Kim of J. Walter Thompson: "I expect to see lots of debt consolidation." Others may use their bundles to set themselves up in business.

BOOMER attitudes may predict their behavior. Laurel Cutler, vice chairman of the FCB/Leber Katz advertising agency, expects boomer spending to be guided by new personal values both more mature and more family-centered than the ones that prevailed in the 1970s and 1980s. One important scruple, though, will survive the transition intact: Boomers will refuse to buy anything less than worldclass products. Cutler expects increased spending on home enhancements the whole family can enjoy: swimming pools, computers, and electronic systems blending video and music that provide not only entertainment but education as well.

Faith Popcorn, the Nostradamus of consumer marketing and chairman of New

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York's BrainReserve, a consulting firm, expects more lavish spending on services. Some boomers may move to ecologically desirable or enlightened venues—Seattle, specifically—or make trips to the world's unravaged spots. Money managers and investment advisers will be in high demand, especially those who can suggest politically and ecologically correct investments.

Will the boomers put the money away for their own old ages? "If they're smart," says Arnold Brown, chairman of New York management consultants Weiner Edrich Brown. "They should invest it in something that will guarantee them a comfortable old age—and I don't necessarily mean stocks and bonds. They could put the money in a prepaid life care facility, or buy some as yet unavailable form of insurance."

So far, boomers have been more noted for profligacy than thrift. FIND/svp, publishers of the *Boomer Report*, a marketing newsletter, convened a focus group in November to ask boomers what they were doing to ensure financial security. One said she was investing in Hallmark Christmas ornaments.

"Inheritors should invest it in something that will guarantee them a comfortable old age—and I don't necessarily mean stocks and bonds."

But many economists expect more sober behavior as the boomers mature. Optimists like Edward Yardeni, chief economist of Prudential-Bache, think their reluctance to save is not so much evidence of a character defect as of precociousness. They have been quicker to buy their first car, home, and other badges of adulthood than past generations. Now that their buying spree is cooling, Yardeni expects boomers' savings rate to rise to 10% or more. Realists think 6% to 7% is more like it. Either way the wealth transfer will at least temporarily diminish America's savings rate, because the inheritors will be spending some of the assets their parents had accumulated.

Heirs who find they dropped out of the work force before they adequately provided for retirement will have to live off the money. In the end, inheritance could spell the difference between adults who must work and those who can retire.

MANAGERS of charities, rubbing their hands over the coming transfers, are hoping for a double dipping of wealth: first, an infusion from the expiring parents; later, one from the inheriting kids. If even a few percent of boomers' potential inheritance went into private foundations, the amount would nearly double the $94 billion now on hand.

Late last year, Peter Goldmark, president of the Rockefeller Foundation, met with leaders of other major foundations at Pocantico Hills, the Rockefeller family's estate, to consider philanthropy's future. Most agreed a golden age of giving is just around the corner, made possible by the imminent demise of some 1,000 older Americans each worth $100 million or more.

"So No. 1," says Goldmark, "we have the wherewithal. It's supply driven: I personally know five donors who each could create Ford Foundation–size foundations tomorrow. And, whether you are liberal or conservative, there's a sense now that private initiative is preferable to state.

"What we don't know is what part of that inheritance is going to philanthropy, what part to *Internal Revenue*." His eyes narrow. "That's right . . . it's a race. Me on one side, the IRS on the other. OK. I'll hurl down the gauntlet to the commissioner. I'll write a letter: The IRS can beat us if it wants, but we've started. We're after the same thing. What's better for the country? Does this money belong in government's pocket? Or should it go to those *thousand points of light*? Hey, this could be quite a letter!"

Popcorn and United Way forecasters believe that charitable boomers will favor specific causes, such as finding a cure for AIDS, helping the homeless, and keeping Greenpeace in rubber rafts. And so far, boomers' attitudes toward charity do seem a little different from their parents' (see box).

As the 1990s progress, new claimants to boomers' patrimony will arise, drawn by the overpowering aroma of trillions of dollars. Everyone, surely, will want a cut. Some will have the goodness to ask for it; others will assert that boomers should be deprived of their inheritance bodily, through a revision to the tax laws, so the money can be used for social programs and replastering the infrastructure. Marketers who want their dip should pick their ladles now. F